



Canadian Tire Corporation Limited: Entering the Digital Age

Description

According to Michael Medline, the CEO of **Canadian Tire Corporation Limited** ([TSX:CTC.A](#)), digital disruption “is happening on a scale larger than any of us could have imagined, and no industry, including retail, will be immune from those changes.” The company recently announced a slew of digital initiatives, and early results have been encouraging.

The digital age

Canadian Tire has traditionally been a brick-and-mortar business, but with the onslaught of digital competitors hitting revenue growth, the company has been forced to adapt. To differentiate itself from its online-focused competition, Canadian Tire decided to marry a traditional print catalogue with a robust digital experience.

While the company’s CEO was originally skeptical about launching an “old-school” print catalogue, he was “blown away” by the digital tie-in concept. He said products featured in the catalogue have performed “extraordinarily” and “created a buzz around Canadian Tire.”

Today, many of its stores are testing various online concepts and “most things we test work” said its CEO. “If you fear failure, then you don’t test anything.”

One of the biggest transitions will involve making it easier for consumers to purchase and pick up goods. “What you want to do is cut out the time and friction with transactions,” Medline said. “Look at how busy we all are. Any friction in having to move around, even online, is too much friction, too much time.”

One such initiative has been allowing **Facebook** users to buy products without having to leave the social media platform. According to the *Globe and Mail*: “Few major retailers have stepped into so-called social commerce by selling products directly on social media with a ‘buy’ button.”

A strong base

Canadian Tire has a unique footprint to expand its digital presence. Its biggest operation, Canadian

Tire Stores, comprised roughly half of all sales. This franchise is one of Canada's most trusted and iconic brands with roughly 500 locations and a weekly advertising flyer that reaches 12 million people (one-third of Canada's total population). Nearly 90% of Canadians are located within 15 minutes of a Canadian Tire store.

While these stores are the crowning jewel of the company's business lines, there are ample growth opportunities in smaller segments. For example, Canadian Tire is also Canada's largest sporting goods retailer, owning and operating store brands such as Sport Chek, Sports Experts, and Atmosphere.

Revenues are only \$2.6 billion, but the sporting segment has experienced double-digit growth rates with 7.6% sales growth last quarter. In the future the company plans to open two million square feet of retail space by 2017, leveraging its premier locations and already strong ties with sporting brands and distributors.

A boring, reliable stock

Canadian Tire is both an efficient operator and shareholder friendly. It targets returns on invested capital of at least 10%, returning these profits back to shareholders through buybacks and dividends.

The company finished a \$400 million share-repurchase program in 2015 after purchasing a similar amount over the past two years. Dividends have also been increased annually since their introduction. At its current rate, the dividend yield is only 1.1%. The payout has been increasing at double-digit rates over the past couple years, however, so expect this to grow over time. Even through the 2009 financial crisis, the company was able to maintain its dividend payout, avoiding a cut.

With its digital initiatives just taking hold, Canadian Tire has a chance to continue leveraging its strong market positions and leading profitability metrics.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:CTC.A (Canadian Tire Corporation, Limited)

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